



American States
UTILITY SERVICES, INC.

Privatization of Military Installations

Objectives, Lessons Learned and Success Realized

Wednesday, August 17, 2005

Who we are....

ASUS, Inc...

- Is a wholly-owned subsidiary of American States Water Company, a New York Stock Exchange listed company (NYSE:AWR)
- Provides full and partial operation and maintenance services, primarily in water and wastewater businesses, under contract to municipal, government and private entities
- Is a significant bidder for water and wastewater operations through the military base privatization program

Our Objectives and Goals...

■ Strategic

- Expand our geographic profile
- Provide for cross-training and job rotation
- Leverage what we do best
 - Water
 - Wastewater

■ Financial

- Increase earnings
- Diversify revenue sources

What we thought...

About utility privatization generally....

- It is a “once-in-a-lifetime” opportunity
- The process would move along efficiently and timely pursuant to the authority established in 10 USC 2688

About staffing for utility privatization....

- For bid preparation, we would use consultants and select individuals possessing varying talents and abilities within our existing organization
- There would be minimal corporate oversight of operations once a base had been privatized
- The on-site personnel at a privatized installation would be responsible for a full complement of tasks

What we found...

About the process...

- It was a learning experience for all involved
- Significant differences in the handling of the RFP process by several different groups
- Information on utility systems not readily available or current

About using consultants....

- The government generally lent an understanding ear to industry concerns and was willing to address potential solutions that would accommodate the needs of both sides
- The use of consulting companies proved beneficial as they provided a competent bridge between those in the government and those in private industry

About war....

- War takes priority!!!
- The engagements in Afghanistan and Iraq are first priority and took a considerable amount of the resources previously involved in the privatization process

What we learned...

About the bidding process...

- Protection against existing problems particularly in the area of water quality and wastewater treatment deficiencies
- The RFP process is lengthy and expensive as we have several bids that are now in their fourth year
- Competition is fierce, margins are thin and a bidder must have a long-term perspective
- Service is the most important aspect as it is the basis upon which you were technically qualified and pricing is the result of your technical abilities and qualifications

About contract negotiation...

- Patience is a virtue
- Honesty, being forthright and open, and realizing that the long-term nature of military privatization requires give and take in the negotiation process
- Be resourceful and find solutions not only to the government's issues but to your own as well

About being a good corporate citizen....

- Establish outreach programs with potential subcontractors and other companies and agencies for required purchases of goods and services

About transition...

- Establish working relationships with Garrison Commanders, the Directorate of Public Works, and the Directorate of Contracting, among others
- Establish relationships with local utility companies
- Hire existing manpower when feasible
 - Good people are looking for good companies with good opportunities
 - Possess institutional knowledge

What we can suggest...

To potential bidders...

- Stay away from the water and wastewater business – it's ours!
- Treat privatization as you would any other development opportunity
 - Bring money
 - Be patient
 - Be focused
 - Keep commitments and meet deadlines

To potential bidders... (Continued)

- Have a competent contracting specialist on staff familiar with contracting rules, regulations and requirements
- Run your government operations as if it was your company; if you think about it, your dollars truly are at play here
- Never overlook your rights: challenge the government when you think there is an error, there was something overlooked, or you do not understand the basis upon which the decision was made

To the government....

- Put more installations out for privatization opportunities, including those on foreign lands,
- Have another round of RFP's
- Consolidate the process under one entity

Ft. Bliss, Texas - A Success Story...

A success before takeover...

- Initial RFP was issued January 2000
- Contract was negotiated with DESC and signed in June 2004
- Operations commenced in October 2004
- Negotiation process was professional but intense
- As issues arose there was an open dialogue between DESC and ourselves
 - For example, the potential tax problem associated receipt of contributions-in-aid-of-construction was resolved by forming a regulated utility in the State of Texas

A success after takeover...

- Handoff from DESC (negotiation phase) to Ft. Bliss (operational phase) was seamless
- Established immediate contacts with the Directorate of Contracts, the Department of Public Works and other on-base agencies crucial to our success
- Established contacts with state regulatory authorities ensuring ourselves compliance with applicable federal and state laws
- Established liaison with companies that had previously privatized electric and natural gas operations
 - Shared experiences and learned-the-ropes

A success after takeover... (Continued)

- Operations were not without “everyday” incidents
 - 5 months after takeover, we had a 21-inch collection line collapse, at night, that spilled considerable amounts of sewage
 - Of course, the spill occurred immediately behind the housing for the commanding general and other officers of senior rank
- On notification, we addressed the problem within forty minutes with emergency bypass pumps
- Ultimately, the costs associated with the repair was funded by the installation through the differing site conditions clause

A success after takeover... (Continued)

- We are addressing several growth opportunities at Ft. Bliss requiring significant upgrades to existing facilities and installation of new facilities
 - Sewage lift station improvements
 - New water storage and distribution facilities to meet the growth in manpower currently occurring at the base and expected to continue
- These facilities are funded separately from our basic privatization contract
- Our actual operations are substantially as we forecasted
 - timely service for a fair return

A success after takeover... (Continued)

- We learned much during our transition with Ft. Bliss
 - Truthfully, we're still learning
- Our knowledge places us on the leading edge to make future privatization contracts much easier for both the installation and ourselves

A success... (Continued)

- We just have to brag a little about our joint success!!

“American States Utility Services, Inc. has done an exceptional job of operating the water and wastewater systems at Fort Bliss. They have provided superior service and are focused on meeting the needs of the brave men and women who train at Fort bliss to serve America. The professionalism they have demonstrated has quickly earned the trust of the U.S. Government team at the installation.”

Frankye Wehmhoner
Contracting Officer
Department of the Army
Army Contracting Agency, Southern Division
Fort Bliss Directorate of Contracting
June 30, 2005

A final comment...

Would you do it all over again?...

- YES -- in a heartbeat
- We believe strongly that our role on military installations is to serve the men and women of the armed services, be it here at home or away in a foreign land, so that they can do their job

Thank you...
